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Statement of the Honorable Clifford M. Hardin
Secretary of Agriculture
Before the
Subcommittee on Fiscal Policy
Joint Economic Committee
October 22, 1969

There has been considerable attention in recent months to the rise in food prices, especially meats and particularly beef. Reasons given for the price rise are quite varied. I appreciate the opportunity to appear before the Joint Economic Committee today.

Food prices have risen substantially in the past year with much of the rise in recent months. However, they have not risen as fast over the year as nonfood items in the cost of living index. Despite higher food prices, food costs for the average family have not gone up as much as disposable income. This year consumers will spend only about $16\frac{1}{2}$ percent of their income after taxes on food--the lowest in the world. This will be down from 16.8 percent last year and from 20.0 percent in 1960. One hour of wages in August this year would buy: 2.4 pounds of round steak, or 11.5 pounds of margarine, or 5 dozen eggs. In 1960, one hour of wages bought only 2.1 pounds of round steak, or 8.4 pounds of margarine, or 3.9 dozen eggs.

The increases in food prices in recent months have been a result of strong consumer demand, fractionally lower per capita supplies of livestock products, and the general inflation which has affected prices of all items. As in the past, food prices and food output will continue to be largely a function of supply and demand conditions in the market.

Since the interest of this committee in the increases in food prices is concerned primarily with meat prices and mainly beef prices, I will focus my remarks in that area.

Consumers have a strong preference for meat, and especially for beef. A recent national poll asked respondents how they wanted to spend their additional

income. The idea of having "steaks and roasts whenever we want" ranked right behind color T.V. sets and air conditioning the house.

Total red meat consumption last year was a record 183 pounds, 22 pounds more than in 1960. In addition, per capita use of poultry during this period increased by 11 pounds to 45 pounds per person in 1968. Beef consumption per person increased from 85 pounds in 1960 to a record of over 109 pounds in 1968. Pork consumption per person has changed little for many years, fluctuating in a range from 58 pounds to 68 pounds a year. It was 66 pounds per person in 1968. Consumption of veal and lamb, however, has been trending downward.

Accompanying the increase of nearly a fourth in per capita consumption of beef, retail prices rose 13 percent from 1960 to 1968. Retail prices for pork averaged nearly 23 percent higher than in 1960, but per capita use was only fractionally higher. Retail prices for poultry fluctuated below the 1960 level and in 1968 averaged 3 percent lower. But per capita use of poultry increased nearly a third over the period. These price changes compare with an increase of 15 percent in retail prices for all food used at home.

After-tax consumer income per person rose each year and in 1968 was 51 percent above 1960. The advance in consumer demand for beef as incomes rose was strong enough to absorb a fourth more beef per person and still increase prices for beef only a little less than the rise in retail prices for all food. Trends in recent years attest to the very strong consumer preference for beef.

Producers of beef responded to the expansion in demand and rising prices with an increase in beef production of 41 percent between 1960 and 1968. In addition, imports of beef in 1968 were nearly double those in 1960 and the ratio of imports to production rose from 5 percent to 7 percent. This increase in beef supplies accommodated the rise in per capita use plus an increase of 11 percent in the population.

Prices received by farmers for beef cattle during 1960-68 fluctuated between \$18 and \$23.40 per hundred pounds. The high for the period in 1968 was 15 percent above 1960 but 18 percent below 1951. During the same period, the index of prices paid by farmers rose each year and in 1968 was 19 percent above 1960. With rising costs and fluctuating prices for beef, the earnings of cattle producers and feeders have varied widely during one of the most prosperous periods ever for the economy as a whole.

This description of supply, demand and price trends for beef, provides a setting by which we can examine the changes in market forces contributing to the sharp rise in beef prices last spring.

Beef production through August 1969 averaged at the year-earlier rate. Veal and lamb production continued to decline, but pork output was up 2 percent and total red meat production held at the record 1968 level. At the same time, consumer incomes continued to rise sharply, though somewhat less than in 1968. Moreover, general inflationary pressures permeate the entire economy. The consumer price index in August was up more than $5\frac{1}{2}$ percent from a year earlier.

Retail prices of beef and veal peaked in July of this year at a level 16 percent above a year earlier and almost half this increase came in May, June, and July. In May and June, the number of cattle going to slaughter temporarily dipped below year-earlier numbers. Even though the reduction in supplies was small, the strongly advancing demand for beef resulted in an immediate surge in cattle prices in May and June. Hog prices also shot upward for the same reasons plus seasonally smaller supplies.

As marketings picked up in the summer, fed cattle prices declined and in early October they averaged about \$6 below the high in June and only \$1 above a year earlier. Retail beef prices continued to rise into July. However, with declining cattle prices, retail prices for beef eased off slightly in August, the latest month reported. As a result, the farm-to-retail price spread widened. In September, the difference between the farm value of a beef carcass and the retail price of beef was up to almost 41 cents per pound compared with 35 cents a year earlier. Average farm value per pound dropped 9 cents from June to 58.5 cents in September.

There has been some concern, by both beef producers and consumers on the action the Department has taken under the 1964 meat import quota law during the past year. At this point I would like to establish what has transpired.

The Meat Import Law requires the Secretary of Agriculture to estimate and publish prior to the start of each calendar year, the quantity of certain meats (primarily chilled and frozen beef and mutton) that are expected to be imported into the United States during the calendar year. This estimate is revised and published quarterly during the year. It is prepared in the Foreign Agricultural Service.

The Foreign Agricultural Service started preparation of its estimate of 1969 imports of meat subject to the Meat Import Law early in November 1968. The estimate was based upon several kinds of information. These include information relating to anticipated supplies and disposition of these meats in the countries eligible to ship chilled or frozen meats to the United States. This estimate incorporates a projection of market conditions in the United Kingdom

and in the European Community, which are the major meat importing markets besides the United States in the world. It is also based upon an estimate of market conditions expected to prevail in the U.S. market which is provided by the Economic Research Service in the Department. Based upon our analysis of these kinds of data the Department's estimate of the quantity of these meats that will be imported into the United States during the calendar year is prepared.

In addition the Economic Research Service prepares, each December, a determination regarding the quota quantity and the quantity at which quotas would be triggered for the ensuing calendar year.

By way of introduction, a voluntary restraint program was started during the last quarter of 1968. Unexpected increases in shipments from Australia and New Zealand during the third quarter led to this program-- under which both Australia and New Zealand reduced sharply their exports to the United States during October-December 1968.

By mid-November 1968 it became apparent that the estimate of imports during calendar 1969 would be in excess of the trigger quantity for 1969. Not only did our estimates of availabilities of supplies in exporting countries suggest that they would be larger than in 1968, but it also appeared likely that the U.S. market would continue in 1969 to be relatively more attractive for foreign suppliers, especially those in Oceania than either the U.K. or EC markets. In addition, there were animals in Australia and New Zealand that would have been slaughtered for export in late 1968 but for the restraint program, then in existence, which added to the available supplies in 1969 for export from those countries.

The information that the estimate of imports in 1969 would probably exceed the trigger quantity was communicated to the respective Agencies in the Administration that were interested in this matter.

Meetings were held by these Agencies and the various options regarding courses of action were discussed. In the course of the interagency deliberations, serious consideration was given to the alternative options of triggering quotas or avoiding quotas through the use of voluntary restraints. A study of the relative advantages and disadvantages weighed in favor of voluntary restraints. In the first instance, it was clear that quotas would violate our obligations under the General Agreement on Tariffs and Trade (GATT). For many years the United States has been in the forefront of the international efforts to obtain a reduction in quota restrictions. In pressing other countries to reduce their barriers to American exports we have laid great stress on their obligations under the GATT. U.S. quotas on meat would not only seriously weaken our position internationally, but might also subject exports of U.S. industry and agriculture to retaliatory measures abroad.

Moreover, the imposition of quotas and the problem of allocation of these quotas would have presented serious foreign relation problems. Since the Meat Import Act requires that quotas be allocated on the basis of a representative historical period, the Latin American countries would have suffered sharp reductions in their exports to the United States under mandatory quotas. It is only in recent years that the Latin American countries, which are seeking to diversify their economies and lessen their reliance on traditional single crops such as coffee and bananas, have succeeded in developing a cattle industry. To have forced these countries

to curtail sharply their exports to the U.S. would have been a blow to their diversification efforts and would have resulted in severe criticism of our foreign policy toward Latin America.

On the other hand, the traditional suppliers to our market, such as Australia, New Zealand, Mexico and Ireland, would have raised strong objections to a distribution of quotas which did not recognize their historic share of the market.

A further consideration which weighed in favor of voluntary restraints was the rigidity of quotas, which once imposed are difficult as a practical matter to remove. The voluntary restraint program, on the other hand, could be modified or discontinued more easily should circumstances warrant.

Late in November, the State Department initiated a series of meetings with representatives of the governments of the principal countries supplying these meats to the United States. USDA representatives participated, and the program of voluntary restraints for 1969 was outlined and discussed.

Negotiations for the voluntary restraint program were completed in December, after each of the participating countries had made commitments. The estimate by the Secretary of Agriculture of imports during calendar 1969 was then revised to take into account the voluntary restraint program.

The Foreign Agricultural Service has maintained surveillance of performances of the countries participating in this program based on current reports of shipments from the supplying countries and also on inspections of arrivals by the Consumer and Marketing Service of the Department. Quarterly estimates have been prepared as of the end of March, June and September 1969. In each case, the estimate reflected the continued voluntary restraints on shipments of these meats by the principal supplying countries.

Sharp price changes for cattle and beef during the past several months have been of concern to beef producing and consuming groups alike. Most of this change has occurred over a relatively short period of time. However, serious consideration should also be given to the matter of how much producers may increase output in the years ahead.

Many forces affect the supply, demand, and price of beef. Most foods compete to some extent. Certainly, all meats and poultry compete for the main course in most meals. Prices of beef are affected by supplies of beef, pork, lamb, and poultry as well as by the level of consumer income.

Beef production has increased substantially over the past 15 years through increases in the size of the beef herd and increases in the number of cattle moving through feedlots. With prices favorable to cattle production, beef output will continue to increase. However, unlike in past years, beef producers are now finishing around three-fourths of all beef animals going to slaughter. Consequently, most of the cattle suitable for feedlot finishing now are fed out. As a result, beef production cannot be increased greatly in short time simply by finishing a larger porportion of cattle. For the most part, growth in beef supplies in the future will depend on expansion of the beef herd. For this to occur, cattle prices must be high enough to encourage producers to continue to expand production.

If prices are low for an extended period and producers view the future unfavorably, they may become discouraged and liquidate some of their present breeding herd. While this would increase the supply of beef in the short-run by increasing slaughter, it would at the same time reduce the future potential for producing beef.

We believe that producers will be able to expand the breeding herd in coming years at a rate that will allow continued steady growth in beef supplies. If demand expansion continues rapid, cattle prices will be well maintained in coming years. We must recognize that inflation affects the welfare of all Americans, producers as well as consumers of beef. Rising costs of production also tend to limit output and push up prices. If the general price level continues to rise, prices of farm products must also rise. I'm sure none of us would want it otherwise.

---Production and consumption per person of red meat,
United States, 1955-69 1/

Year	Beef	Veal	Lamb and mutton	Pork	Total
	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Mil. lb.</u>
1955	13,569	1,578	758	10,990	26,895
1956	14,462	1,632	741	11,200	28,035
1957	14,202	1,526	707	10,424	26,859
1958	13,330	1,186	688	10,454	25,658
1959	13,580	1,008	738	11,993	27,319
1960	14,753	1,109	768	11,607	28,237
1961	15,327	1,044	832	11,408	28,611
1962	15,324	1,015	808	11,827	28,974
1963	16,456	929	770	12,427	30,582
1964	18,456	1,013	715	12,513	32,697
1965	18,727	1,020	651	11,141	31,539
1966	19,726	910	650	11,339	32,625
1967	20,219	792	646	12,581	34,238
1968	20,875	735	602	13,063	35,275
1969 <u>3/</u>	21,030	660	550	12,970	35,210
Consumption per person					
	<u>Lb.</u>	<u>Lb.</u>	<u>Lb.</u>	<u>Lb.</u>	<u>Lb.</u>
1955	82.0	9.4	4.6	66.8	162.8
1956	85.4	9.5	4.5	67.3	166.7
1957	84.6	8.8	4.2	61.1	158.7
1958	80.5	6.7	4.2	60.2	151.6
1959	81.4	5.7	4.8	67.6	159.5
1960	85.0	6.1	4.8	64.9	160.8
1961	87.7	5.6	5.1	62.0	160.4
1962	88.8	5.5	5.2	63.5	163.0
1963	94.3	4.9	4.8	65.3	169.3
1964	99.8	5.2	4.2	65.3	174.5
1965	99.3	5.2	3.7	58.5	166.7
1966	104.0	4.5	4.0	58.0	170.5
1967	105.9	3.8	3.9	63.9	177.5
1968	109.4	3.6	3.7	66.0	182.7
1969 <u>3/</u>	109.6	3.2	3.5	64.6	180.9

1/ 50 States, beginning in 1960.

2/ Production of red meats is total dressed weight from total United States slaughter.

3/ Preliminary.

Quarterly meat consumption from 1967-69

Item	Commercial production					Total production including farm
	I	II	III	IV	Total	
<hr/>						
	Pounds Per Person					
Beef:						
1967	26.2	26.6	26.8	25.7	105.3	105.9
1968	26.7	26.8	28.2	27.3	109.0	109.4
1969	26.9	26.5				<u>1/109.6</u>
Veal:						
1967	0.9	0.9	0.9	0.9	3.6	3.8
1968	.9	.8	.9	.8	3.4	3.6
1969	.8	.7				<u>1/3.2</u>
Pork:						
1967	16.1	14.9	15.3	16.9	63.2	63.9
1968	16.2	15.7	15.8	17.6	65.3	66.0
1969	16.7	15.8				<u>1/64.6</u>
Lamb and Mutton:						
1967	1.0	.9	1.0	.9	3.8	3.9
1968	1.0	.9	.9	.9	3.7	3.7
1969	.9	.9				<u>1/3.5</u>
Total Meat:						
1967	44.2	43.3	44.0	44.4	175.9	177.5
1968	44.8	44.2	45.8	46.6	181.4	182.7
1969	45.3	43.9				<u>1/180.9</u>

1/ Preliminary.

Beef: Retail price, wholesale value, farm value, farm-retail spread, and farmer's share of retail price, annual 1955-67, monthly 1968-69

Date	Retail price per pound 1/	Wholesale value 2/	Gross farm value 3/	By-product allowance 4/	Net farm value 5/	Farm-retail spread			Farmer's share
						Total	Wholesale- retail	Farm wholesale	
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Percent
Beef, Choice grade									
1955	67.5	50.8	44.9	3.8	41.1	26.4	16.7	9.7	61
1956	66.0	49.0	42.9	3.8	39.1	26.9	17.0	9.9	59
1957	70.6	52.2	46.5	4.0	42.5	28.1	18.4	9.7	60
1958	81.0	60.3	55.7	4.8	50.9	30.1	20.7	9.4	63
1959	82.8	61.5	56.9	5.4	51.5	31.3	21.3	10.0	62
1960	81.0	58.7	52.7	4.5	48.2	32.8	22.3	10.5	60
1961	79.2	55.8	51.2	4.9	46.3	32.9	23.4	9.5	58
1962	82.4	60.8	55.6	4.9	50.7	31.7	21.6	10.1	62
1963	81.0	56.1	51.1	4.5	46.6	34.4	24.9	9.5	58
1964	77.8	53.8	46.6	4.2	42.4	35.4	24.0	11.4	54
1965	81.4	57.6	51.6	4.8	46.8	34.6	23.8	10.8	57
1966	84.3	58.9	55.5	5.9	49.6	34.7	25.4	9.3	59
1967	84.1	59.7	54.3	5.0	49.3	34.8	24.4	10.4	59
1968	87.3	63.0	57.5	5.0	52.5	34.8	24.3	10.5	60
Jan.	86.3	61.7	55.3	4.8	50.5	35.8	24.6	11.2	59
Feb.	86.5	61.8	56.2	4.7	51.5	35.0	24.7	10.3	60
Mar.	86.4	62.5	57.4	4.9	52.5	33.9	23.9	10.0	61
Apr.	86.2	62.6	57.7	5.3	52.4	33.8	23.6	10.2	61
May	86.8	62.9	57.8	5.3	52.5	34.3	23.9	10.4	60
June	86.8	63.1	57.8	5.3	52.5	34.3	23.7	10.6	60
July	87.2	64.4	58.2	4.9	53.3	33.9	22.8	11.1	61
Aug.	88.1	63.8	58.6	5.1	53.5	34.6	24.3	10.3	61
Sept.	88.3	64.2	58.9	5.1	53.8	34.5	24.1	10.4	61
Oct.	88.3	62.6	56.8	5.2	51.6	36.7	25.7	11.0	58
Nov.	88.5	62.4	56.8	5.1	51.7	36.8	26.1	10.7	58
Dec.	88.1	64.0	58.7	5.0	53.7	34.4	24.1	10.3	51
1969									
Jan.	90.1	64.9	59.7	5.1	54.6	35.5	25.2	10.3	61
Feb.	90.0	64.6	60.3	5.1	55.2	34.8	25.4	9.4	61
Mar.	89.9	65.5	61.3	5.2	56.1	33.8	24.4	9.4	62
Apr.	92.7	68.2	63.3	5.6	57.7	35.0	24.5	10.5	62
May	94.8	72.5	67.6	5.9	61.7	33.1	22.3	10.8	65
June	100.0	77.7	73.8	6.1	67.7	32.3	22.3	10.0	68
July	101.7	77.1	72.4	6.0	66.4	35.3	24.6	10.7	65
Aug.	100.1	72.7	67.5	5.9	61.6	38.5	27.4	11.1	62
Sept. 6/	99.4	68.3	65.1	6.6	58.5	40.9	31.1	9.8	59

1/ Estimated weighted average price of retail cuts. 2/ Wholesale value of quantity of carcass equivalent to 1 lb. of retail cuts: Beef, 1.35 lb. 3/ Payment to farmer for quantity of live animal equivalent to 1 lb. of retail cuts: Beef, 2.25 lb. 4/ Portion of gross farm value attributed to edible and inedible by-product. 5/ Gross farm value minus by-product allowance. 6/ Preliminary.

Selected Farm and Retail Price Indexes, 1955-1969
1957-59=100

Year and Month	Food										Consumer				Price	
	Meats	Cereal	Fruits	Public	Health	Home	Apparel	Consumer	price	index	price	index	price	index	received	paid
	Beef	and	and	Trans-	and	owner-	and	price	index	less	food	all	index	all	by	by
	and	bakery	Vege-	porta-	Recre-	ship	upkeep								farmers	farmers
	Veal	products	tables	tion	ation										for beef	1/
															cattle	
1955	84.4	87.7	93.4	91.8	94.0	89.0	91.4	92.6	95.9	93.1	93.3	93.1	93.3	93.1	75.8	94
1956	83.1	84.8	94.7	96.3	94.7	92.5	93.6	94.1	97.8	94.7	94.7	94.7	94.7	94.7	72.4	95
1957	89.2	94.2	98.4	96.0	97.8	96.0	97.0	98.2	99.5	97.9	98.0	98.0	98.0	98.0	83.6	97
1958	103.8	104.9	100.4	102.8	101.9	100.5	100.3	100.4	99.8	100.1	100.7	100.1	100.7	100.1	106.4	101
1959	106.9	101.0	101.2	101.2	100.3	103.5	102.8	101.4	100.6	102.0	101.5	102.0	101.5	102.0	109.9	102
1960	104.2	99.2	103.2	103.8	101.4	107.0	105.4	103.7	102.2	103.7	103.1	103.7	103.1	103.7	99.2	103
1961	102.5	100.5	105.4	104.2	102.6	111.7	107.3	104.4	103.0	104.8	104.2	104.8	104.2	104.8	98.2	104
1962	106.2	102.5	107.6	105.0	103.6	115.4	109.4	105.6	103.6	106.1	105.4	106.1	105.4	106.1	103.5	106
1963	105.0	100.9	109.1	111.0	105.1	116.9	111.4	107.0	104.8	107.4	106.7	107.4	106.7	107.4	96.7	108
1964	101.9	99.4	109.6	115.3	106.4	119.0	113.6	109.1	105.7	108.9	108.1	108.9	108.1	108.9	87.5	108
1965	106.8	106.9	111.2	115.2	108.8	121.4	115.6	111.4	106.8	110.4	109.9	110.4	109.9	110.4	96.7	111
1966	112.4	116.8	115.8	117.6	114.2	125.8	119.0	115.7	109.6	113.0	113.1	113.0	113.1	113.0	107.9	116
1967	113.1	113.8	118.5	117.5	115.2	132.1	123.8	120.2	114.0	116.8	116.3	116.8	116.3	116.8	108.4	119
1968	117.7	116.4	119.0	126.8	119.3	138.2	130.0	127.0	120.1	121.9	121.2	121.9	121.2	121.9	113.8	123
1969																
Jan.	121.1	118.6	120.5	127.0	122.0	144.8	133.3	132.7	123.4	124.9	124.1	124.9	124.1	124.9	114.7	127
Feb.	121.3	119.0	120.8	124.7	121.9	145.5	133.7	133.6	123.9	125.6	124.6	125.6	124.6	125.6	117.6	128
Mar.	121.4	119.1	121.2	127.6	122.4	147.5	134.3	135.7	124.9	126.8	125.6	126.8	125.6	126.8	122.5	129
Apr.	125.1	121.2	121.3	127.9	123.2	148.0	135.1	137.1	125.6	127.5	126.4	127.5	126.4	127.5	128.3	130
May	127.9	123.4	121.6	130.0	123.7	148.0	135.7	138.0	126.6	127.9	126.8	127.9	126.8	127.9	139.0	131
June	134.6	129.5	122.0	130.8	125.5	149.1	136.3	138.7	127.0	128.4	127.6	128.4	127.6	128.4	143.9	132
July	136.8	131.7	122.6	132.3	126.7	149.5	137.0	140.0	126.8	128.8	128.2	128.8	128.2	128.8	136.1	131
Aug.	135.4	131.9	122.6	130.2	127.4	149.7	137.7	141.3	126.6	129.3	128.7	129.3	128.7	129.3	131.3	130
Sept.															126.0	130

1/ Prices paid by farmers for production items, interest, taxes and wages.

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1911-1912

1912-1913

1913-1914

1914-1915

1915-1916

1916-1917

1917-1918

1918-1919

1919-1920

1920-1921

1921-1922

1922-1923

1923-1924

